

Annual Audit and Inspection Letter

March 2008



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South Derbyshire District Council

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Key messages	4
Action needed by the Council	4
Purpose, responsibilities and scope	5
How is South Derbyshire District Council performing?	6
The improvement since last year - our Direction of Travel report	6
Service inspections	9
The audit of the accounts and value for money	10
Audit fee update	12
Looking ahead	13
Closing remarks	14
Availability of this letter	15

Key messages

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It reports the main findings from the audit of the Council's 2006/07 accounts and includes the outcome of our recent work on the Council's use of its resources and direction of travel.
- 2 The key messages for the Council are as follows.

Direction of travel summary

- 3 The Council has worked hard to improve its performance this year and has made good progress against two of its three priorities. Good progress is being made in relation to customer focus and in developing safer and healthier communities. There has been relatively weak performance against the priority of 'a cleaner and greener South Derbyshire', although recycling rates have recently improved. It is generally contributing well to wider community outcomes and works effectively to represent South Derbyshire in the region, being good at generating external funding and investment. In relation to value for money the Council has improved over the last year and is performing well. Access to services has improved, and there is a greater emphasis on the rural areas and older people. However, as there is no effective monitoring of diversity and equality, it is difficult to know whether services are meeting the needs of the whole community. Internally the Council is relatively weak in its approach to equality.
- 4 The Council has robust plans for improving and is developing its capacity to deliver them. However, on occasion it pays inadequate attention to performance relative to other authorities or is insufficiently rigorous in assessing improvement. Some actions are in place to address this.

Use of resources

- 5 The Council continues to perform well overall on the use of its resources. It now performs well on all five of the individual themes having improved its financial reporting and achievement of value for money since our previous assessment.

Action needed by the Council

- Ensure that performance is systematically measured and monitored relative to other councils and that action is taken as appropriate.
- Ensure that the Council recognises more clearly its duty to promote equality of opportunity.

Purpose, responsibilities and scope

- 6 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 7 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 8 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Council is planning to publish it on its website.
- 9 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 10 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 11 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is South Derbyshire District Council performing?

- 12 South Derbyshire District Council was assessed as fair in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils, and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

What evidence is there of the Council improving outcomes?

- 13 The Council has made good progress on its priority of greater customer focus and efficiency in its services. Public satisfaction with the Council is very good, as is tenant satisfaction and that for planning services. Satisfaction with recycling is also above average, as is the Council's performance on transactional services and complaints handling. Approximately 70 per cent of customer queries are now answered at first point of call by the Customer First service, up from 45 per cent last year. The Council has also improved its performance in planning, environmental health and housing, with the latter receiving chartermark status in December 2007. In June 2007 the Council's cultural services were judged by the Audit Commission to be good, with promising prospects for improvement. However, there remains work to be done to address below average public satisfaction with cleanliness of public places, waste collection, leisure facilities and parks and open spaces.

- 14 On the priority of 'safer and healthier communities' there is also a generally positive picture. There have been improvements in relation to motor vehicle crime, robberies and violence against the person. However, incidences of burglaries have increased. The Council, together with its partners, is working effectively to address this. For example, it is tackling domestic violence through the provision of refuge protection to back up the work of voluntary sector domestic violence officers. It is also addressing the 'healthier' agenda, for example through increasing uptake in sports and activities provision such as 'Get Active in the Forest' and multi-use games areas.
- 15 There has been relatively weak performance on the priority of 'a cleaner and greener South Derbyshire'. In 2006/07 the Council improved 40 per cent of its local environment BVPIs, which is significantly below the average range for district authorities of 60-64 per cent. Recycling performance was below average compared with other councils although unaudited figures to the end of 2007 show that performance has improved significantly. Performance on waste collection (both in terms of cost and kilograms collected) was below that of most councils and is projected to remain so. Although the Council recognises problems with the amounts of litter and detritus on public land, and is taking action to try to address this, its performance to the end of 2007 remained relatively weak.
- 16 Against a basket of best value performance indicators (BVPIs) selected by the Audit Commission for 2006/07, 57 per cent of the Council's PIs improved since 2005/06 which is within the average range for all district authorities. A third of PIs were in the best quartile (just above the average for all authorities). Over the last three years the Council has also improved 57 per cent of its PIs which is slightly above the average range for district authorities of 54-56 per cent.
- 17 The Council is generally contributing well to wider community outcomes. It continues to perform well against its Community Strategy actions and against its Corporate Plan actions relating to the theme of 'Stronger in the Region'. It is placing greater emphasis on developments in rural areas, for example transferring some of its assets into community hands, and has been successful in working with partners to generate both external funding and inward investment including £3.12 million via planning agreements (Section 106) and £2.52 million for capital projects.

- 18 Access to services has improved, but further improvement is needed in the Council's overall approach to diversity and equalities. The Council has updated its Corporate Strategy following further consultation with the public and has undertaken a number of initiatives designed to engage minority communities. In addition to the expanding Customer First initiative the Council is catering for both younger and older people, for example, through mobile sports facilities and through the Telecare service. It is also ahead on its decent homes target and on target to improve the energy efficiency and insulation of houses in the district. However, it is behind in its approach to some areas of greatest need such as tackling the causes and effects of social exclusion, meeting the need for affordable homes (although it has recently completed a district-wide survey) and providing help to private sector households who cannot afford to make their homes "decent". As there is no effective monitoring of diversity and equality it is difficult to know whether services are meeting the needs of the whole community. Internally the Council has a relatively weak record on equalities. It currently achieves Level 1 of the Equalities Standard which is behind that of most other councils, although it is working to achieve Level 2 by the end of March 2008. It has work to do to make its workforce more representative and to fulfil its duty to promote race equality.
- 19 In relation to value for money (VFM) the Council has improved over the last year and is performing well. It has continued its prudent approach to finances and made further significant efficiency savings. For example, it made Gershon efficiency savings of £1.3 million in 2006/07 and further savings of £80,000 in the first nine months of 2007/08 through improved procurement. It is embedding a culture of VFM, with procurement being used to deliver savings, and its business improvement programme working well to identify more efficient means of service delivery and better use of resources.

How much progress is being made to implement improvement plans to sustain future improvement?

- 20 The Council has robust plans for improving. It is making good progress against its targets for the Corporate and Improvement Plans, the Community Strategy and its service plans and is on track to deliver the improvements identified by the inspection of cultural services. It has a sound approach to risk management and has taken appropriate actions to address high risks, for example through base budget and service reviews, and a smooth introduction of a new IT system in revenues and benefits. The new Financial Plan, the Medium Term Financial Strategy and the Procurement Strategy continue to underpin the Council's sound financial management and use of resources.
- 21 However, on occasion, the Council pays inadequate attention to performance relative to other authorities or is insufficiently rigorous in assessing improvement. This means that what may actually be under-performance passes for 'green' performance under the current performance management framework. Examples include the assessment of planning performance and work on equalities. In recognition of this a new target-setting regime is being applied in financial and service plans from April 2008 and the performance management framework has been reviewed to include VFM, partnership working and governance.

- 22** The Council is working hard to ensure that it has capacity to deliver its plans. The restructure of senior management has created greater accountability and contribution from heads of service. The Council is strengthening its approach to asset management. For example its imaginative approach to the development of land in Midway is generating £1.3 million while providing housing and community facilities. Developments in IT and changes in planning, corporate, democratic and customer services have been effective in streamlining service provision. Business improvement has provided additional capacity, both in terms of efficiencies and the development of internal business review skills. In recognition of weaknesses in environmental services the Council is proposing to put services such as refuse collection, recycling and street cleaning out to tender. Above target Gershon savings, improved procurement and targeted external funding and investment have also enabled the Council to put additional monies into priority services. While the change in political administration has gone smoothly, there remains scope to develop councillor capacity through further training and development.

Service inspections

- 23** We carried out an inspection of the Council's cultural services in early 2007. Our overall assessment was 'a good service that has promising prospects for improvement'. Our report was published in June 2007 and can be found on the Audit Commission's website.

The audit of the accounts and value for money

- 24 As your appointed auditor I have reported separately to Audit Sub committee on the issues arising from our 2006/07 audit and have issued:
- my audit report, providing an unqualified opinion on your accounts and a conclusion on your value for money arrangements to say that these arrangements are adequate, on 26 September 2007; and
 - my report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 25 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support Council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).

- 26 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1 Use of resources scored judgement

The Council has maintained its good performance overall but no performs well across all five themes

Element	Assessment	Last year's assessment
Financial reporting	3 out of 4	2 out of 4
Financial management	3 out of 4	3 out of 4
Financial standing	3 out of 4	3 out of 4
Internal control	3 out of 4	3 out of 4
Value for money	3 out of 4	2 out of 4
Overall assessment of the Audit Commission	3 out of 4	3 out of 4

(Note: 1 = inadequate performance, 2 = adequate performance, 3 = performing well, 4 = performing strongly)

- 27 The Council's performance has improved in two of the five Use of Resources themes and it is now performing well in all areas. In particular the Council achieved improvements in:
- financial reporting where the 2006/07 accounts were produced to meet key deadlines, were presented fairly and only contained a small number of non-trivial errors. This was a considerable improvement on 2005/06; and
 - value for money where it continues to be a low spending Council which is now improving services over time compared with others. It is also delivering some service efficiencies through the business improvement programme and plans for value for money reviews of all services are in hand. Good procurement practices are also delivering significant savings.

Audit fee update

- 28 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

	Plan 2006/07 £	Actual 2006/07 £
Financial statements and Statement on Internal Control	66,000	66,000
Use of Resources	27,300	27,300
Total Audit Fees	93,300	93,300
Relationship management	5,700	5,700
Service Inspection	6,200	6,200
Total inspection fee	11,900	11,900
Total Audit and Inspection Fee	105,200	105,200
Whole of Government Accounts	Not included in the plan	1,950
Grants certification work	24,500*	17,611

* *The figure quoted in the plan is an estimate*

- 29 The analysis above shows our audit fee has been contained within the totals you have already agreed.

Looking ahead

- 30** The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 31** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 32** The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

Closing remarks

- 33 This letter has been discussed and agreed with the Chief Executive and Director of Corporate Services. A copy of the letter will be presented at the Finance and Management Committee on 1 May 2008. Copies need to be provided to all Council members.
- 34 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit plan	May 2006
Auditor's report on the 2006/07 Best Value Performance Plan	November 2006
Performance Management - Review of Progress	January 2007
Use of resources 2006 – Auditor's feedback	March 2007
Local Area Agreement and Community Safety Study	April 2007
Opinion audit plan	April 2007
Annual governance report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Opinion audit letter	September 2007
Use of resources 2007 – Auditor's feedback	December 2007
Data quality report 2007/08	December 2007
Annual audit and inspection letter	March 2008

- 35 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit and over the past five years.

Availability of this letter

- 36 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Andrew Blackburn
District Auditor and Relationship Manager

March 2008